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May Revision

Governor's Budget 1994-95

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Pete Wilson
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State of California

May 1994

DEPARTMENT OF FINANCE

CONTACT PERSONS

EXECUTIVE

RUSSELL S. GOULD
Director of Finance
445-4141

TERRI A. PARKER
Chief Deputy Director
445-8582

STAN STANCELL
Chief Deputy Director
445-8610

STEVEN A. OLSEN
Deputy Director
445-9862

DENNIS HORDYK
Assistant Director
445-4923

H.D. PALMER
Assistant Director
323-0648

BUDGET PROGRAM AREAS

Budget Planning and Preparation, Cash Management, Statewide Issues and State Appropriations Limit	Robert J. Straight	445-5332
Education	Carl Rogers	445-0328
Health and Welfare, Judicial and Local Government	Diane Cummins	445-6423
Revenue Forecasting, Economic Conditions, Population Estimates, Business, Transportation and Housing, Trade and Commerce	Wallis Clark	322-2263
Youth and Adult Correctional, Justice, General Government and State and Consumer Services	Calvin Smith	445-8913
Legislation, Resources, Environmental Protection, and Capital Outlay	Fred Klass	324-0043
Collective Bargaining	Vince Brown	445-3274
Office of Information Technology	Steve Kolodney	445-1932

May Revision Summary

The Economy

There is growing evidence that California is showing signs of an economic turnaround. The May Revision forecast for both employment and personal income has been adjusted upwards for 1994 and 1995. This forecast is conservative, and is well within the range of forecasts made by other public and private economists.

California's employment growth is being led by the construction, trade, auto manufacturing, and tourism industries. Downside risks include continued job losses in the defense and aerospace industries, and uncertainty regarding interest rates, which could have a chilling effect on new home construction and related purchases.

Revenues

Revenues are essentially unchanged from January. Current year revenues of $39.5 billion are down $161 million, primarily reflecting lower-than-expected receipts from the personal income tax and the bank and corporations tax. This reduction is due in large part to casualty loss deductions associated with the Northridge Earthquake. Budget year revenues of $41.5 billion are $181 million above the January level, led by anticipated growth in the sales and use tax.

Like the January Budget, the May Revision contains no proposed tax increases. The revenue forecast continues to reflect the Governor's proposals to enact middle class income tax relief and employer tax credits.

Expenditures

As in January, the May Revision proposes General Fund expenditure levels in the budget year that are approximately $4 billion lower than 1991-92 levels. Budget year expenditures are essentially unchanged from January, having been revised upward by $177 million. Growth in Medi-Cal caseload and K-12 average daily attendance have been revised downward. The May Revision also reflects reductions in estimated costs for interest on General Fund loans and health benefits for annuitants. These savings are offset by increased K-12 expenditures resulting from reduced property tax growth.

Federal Funds

The May Revision continues to reflect receipt of federal funds to reimburse California for the cost of federally mandated services to undocumented immigrants, as well as other federal funds proposed in the January Budget.

Northridge Earthquake Relief

The May Revision reflects the cost of all state programs enacted to address the Northridge Earthquake that are not funded with Proposition 1A bonds or federal funds. This includes $300 million in revenue losses associated with casualty loss deductions, $11 million in property tax relief to local government,

The Economy

GENERAL FUND UPDATE
(Dollars in Millions)

	1993-94	1994-95
RESOURCES		
Prior Year Balance	$587	-$622
REVENUES AND TRANSFERS	**39,582**	**41,515**
Loan Repayment (1992-93 Deficit Retirement)	-1,600	-1,200
NET TOTAL RESOURCES	**$38,569**	**$39,693**
EXPENDITURES	**$39,191**	**$38,965**
FUND BALANCE	**-$622**	**$728**
Reserve for Economic Uncertainties	-$1,015	$335
Reserve for Liquidation of Encumbrances	($393)	($393)

THE ECONOMIC FORECAST UPDATED

The Nation

Economic recovery is apparently proceeding at a steady pace for the nation as a whole. The May Revision economic forecast for the U.S. is moderately higher, reflecting both improved prospects and upward revisions in several major data series.

The recovery gained momentum in the last quarter of 1993, with GDP expanding at a 7 percent rate. This was stronger than assumed for the Budget forecast. Strength in the recovery has been reflected in cars sales, housing starts, job gains, industrial production and corporate profits. Business investment in equipment has strengthened beyond that expected for the Budget forecast. Inflation remains under control, and appears to be coming in lower than previously forecast.

On the down side, investment in nonresidential structures is coming in weaker than anticipated. Federal spending for both defense and nondefense programs has fallen more rapidly than forecast previously, and a surge in imports has contributed to a large foreign trade deficit. California's Northridge Earthquake was reflected in national data, although the effect was far smaller and more temporary for the U.S. than it will be for the state.

The May Revision forecast has incorporated these developments. Gross domestic product (GDP) for the first quarter 1994 grew at essentially the rate forecast late last year. For all of 1994, however, real GDP is now expected to grow by 3.6 percent, compared to the 2.8 percent forecast in the Budget. Growth for 1995 is expected to be reduced as concerns mount over the impact of higher interest rates.

Although assumptions underlying the Budget forecast included rising interest rates, policy moves by the Federal Reserve in recent weeks have pushed rates up faster than expected. The mortgage rate, now at approximately 8-1/2 percent, is of particular concern. There are reports that housing activity--resales, refinancings, and new building--is already slowing down. It will be difficult to keep recovery going if rates edge higher in coming months.

Another downside risk is the as yet unresolved issue of health care coverage and costs. Both interest rates and the health care question are critical factors for job creation. Small business, in particular, could be adversely affected by rising health costs, and it is this sector which creates many of the new jobs during an economic upturn.

The May Revision shows stronger employment gains in 1994, but renewed weakness in 1995. Even so, the recovery is still quite moderate by historical standards, and the unemployment rate--essentially the same as forecast for the Budget--will remain a concern.

California

There is growing evidence that California is showing signs of an economic turnaround, and the May Revision forecast is revised up from the January Budget forecast. Since the January Budget forecast, 1993 nonfarm employment has been revised upward by 31,000. Employment in the early months of 1994 has shown encouraging signs of growth, several months sooner than was contemplated in the January Budget forecast. Between December and April, payrolls are up by 50,000 jobs. The Northridge Earthquake may have dampened economic activity briefly during late January and February, but the rebuilding effects are now adding a small measure of stimulus.

Sectors which are contributing to California's recovery include construction and related manufacturing, wholesale and retail trade, transportation and several service industries such as amusements and recreation, business services and management consulting. Electronics is showing modest growth and the rate of decline in aerospace manufacturing is slowly diminishing. These trends are expected to continue, and by next year, much of the restructuring in the finance and utilities industries should be nearly complete. Thus, the State's recovery should gain momentum over the next two years.

As a result of these factors, average 1994 nonfarm employment is now forecast to maintain 1993 levels compared to a projected 0.6 percent decline in the January Budget. 1995 employment is expected to be up 1.6 percent, compared to 0.7 percent in the January Budget.

The earthquake resulted in a downward revision of this year's personal income growth—from 4 percent in the January Budget to 3.6 percent. However, this decline is more than explained by the $5.5 billion charge against rental and proprietors' incomes—equal to 0.8 percent of total income—reflecting uninsured damage from the quake. Next year, without the quake effects, income grows 6.1 percent, compared to 5 percent in the January Budget. Without these quake effects, income growth was little changed in the May Revision compared to the January Budget forecast.

The housing forecast remains essentially unchanged. Although existing home sales have strengthened and subdivision surveys indicate increased new home sales, building permits are up only slightly from recession lows. Gains are expected in the months ahead, but higher mortgage interest rates will dampen the upturn. Essentially, the earthquake adds a few thousand units to the forecast, but this effect is offset by higher interest rates.

Interest rates represent one of several downside risks to the forecast. The rise in interest rates has occurred more rapidly than contemplated in the January Budget forecast. In addition to affecting housing, higher rates may also dampen consumer spending, given the high proportion of California homeowners with adjustable-rate mortgages. The May Revision forecast includes a further rise in the Federal Funds rate to nearly 5 percent by the beginning of 1995. Should rates rise more steeply, housing and consumer spending would be adversely affected.

The employment upturn is still tenuous. EDD revised down February's employment gain and March was revised to a small decline. Unemployment rates in California have historically been volatile since January ranging from a high of 10.1 percent to a low of 8.6 percent. The small sample size coupled with changes made to the survey instrument in January contribute to this volatility.

SELECTED NATIONAL ECONOMIC VARIABLES

Comparison of May Revision and Budget Forecast

(Percent change from previous year, except as noted)

	1993	1994	1995
Real Gross Domestic Product			
May Revision	3.0	3.6	2.2
Budget	2.8	2.8	3.4
Personal income			
May Revision	4.7	6.1	5.2
Budget	4.6	5.4	5.9
Corporate profits			
May Revision	13.7	11.8	4.9
Budget	13.9	7.3	0.9
Wage & salary employment			
May Revision	1.5	2.1	2.8
Budget	1.5	1.5	2.1
Unemployment rate (%)			
May Revision	6.8	6.5	6.3
Budget	6.8	6.6	6.2
Consumer Price Index			
May Revision	3.0	2.6	3.4
Budget	2.9	2.9	3.6

May 1994

CALIFORNIA ECONOMIC FORECAST

Comparison of May Revision and Budget Forecast

	1993	1994	1995
Non-Farm Employment (000)			
May Revision	12,001	12,017	12,206
Budget	11,970	11,902	11,987
Percent Change			
May Revision	-1.3	0.1	1.6
Budget	-1.4	-0.6	0.7
Personal Income ($ Billions) *			
May Revision	665.9	689.9	732.3
Budget	662.4	689.0	723.2
Percent Change			
May Revision	1.4	3.6	6.1
Budget	0.9	4.0	5.0
Housing Permits (000)			
May Revision	84	101	124
Budget	85	102	124

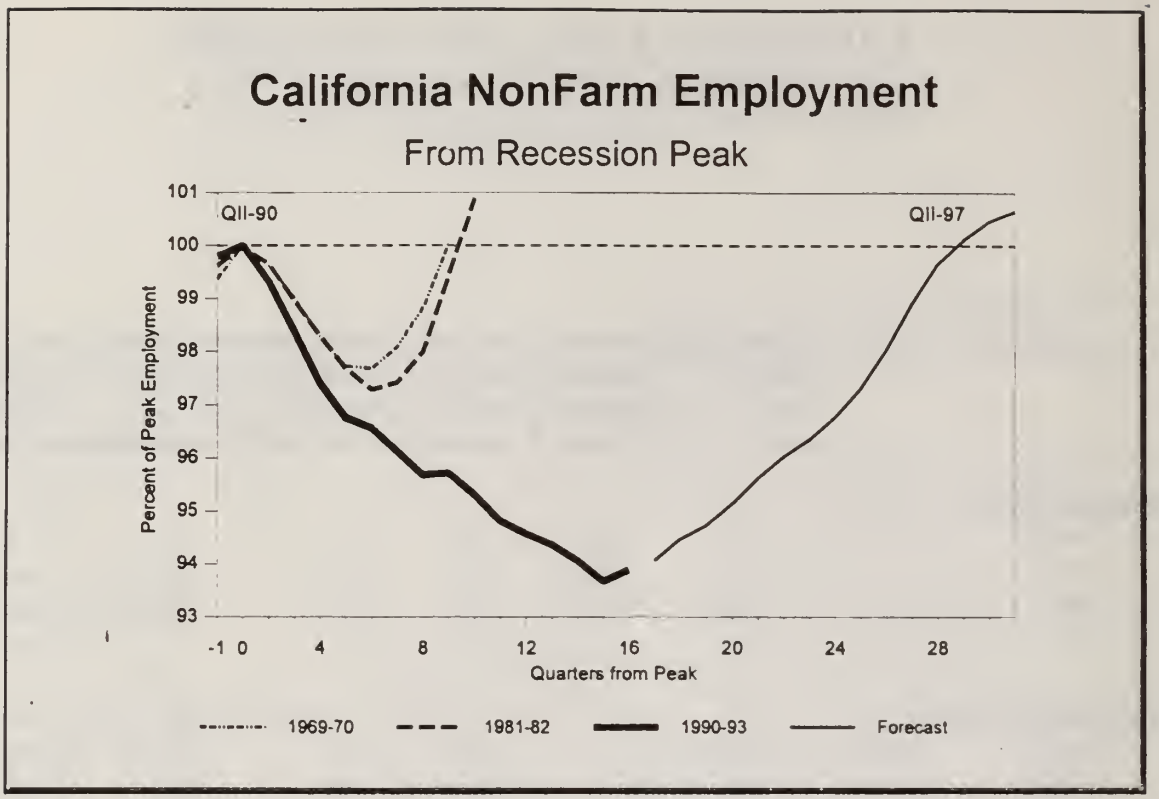
* Northridge Earthquake subtracts $5.5 billion from 1994 income, reflecting uninsured damage to residences and unincorporated businesses. Without this adjustment, forecast income would have been up 4.4 percent in 1994 and 5.3 percent in 1995.

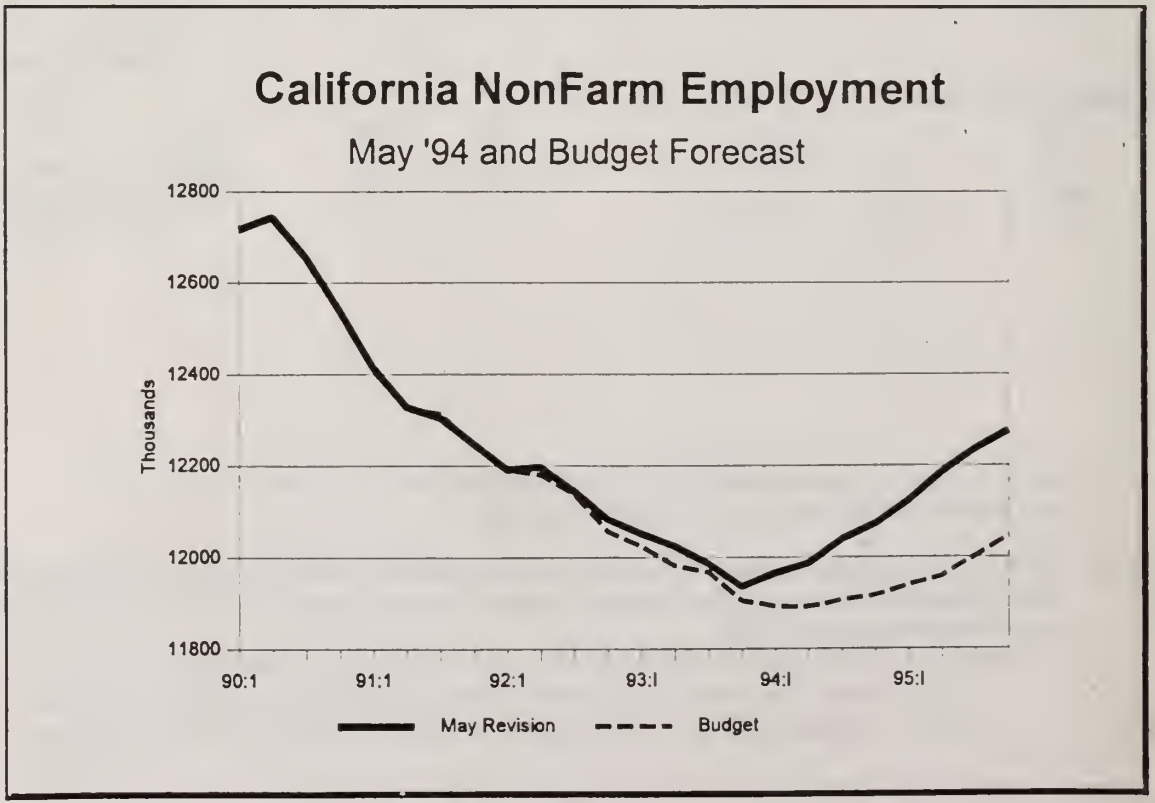
CALIFORNIA FORECAST COMPARISON
UCLA, COSF, LAO, DOF
(Percent Changes)

	UCLA Mar. 94	UCLA [1/] Adjusted	LAO Jan. 94	COSF Feb. 94	DOF Budget Nov. 93	DOF May Revision
Personal Income						
1993	1.1	1.1	0.9	1.0	0.9	1.4
1994	5.0	4.2	3.6	3.5	4.0	3.6
1995	4.2	5.0	4.3	6.8	5.0	6.1
NonFarm Employment						
1993	-1.3		-1.5	-1.4	-1.4	-1.3
1994	0.2		-1.1	-0.3	-0.6	0.1
1995	1.6		0.0	1.5	0.7	1.6
Housing Units (000)						
1993	85		85	86	85	84
1994	139		98	112	102	101
1995	192		126	133	124	124

[1/] Income adjusted to include damage effects of Northridge Earthquake, which subtracts 0.8 percent from 1994 income, benefitting 1995 by a similar percentage.

NOTE: COSF includes earthquake effects at 0.5 percent of income (Commerce estimate at that time). LAO and DOF Budget do not include quake. DOF May includes quake at 0.8 percent of income in 1994 (US Commerce Dept. estimate in their release of 4/29/94).


California NonFarm Employment
From Recession Peak
QII-90
QII-97
Percent of Peak Employment
101
100
99
98
97
96
95
94
93
-1 0 4 8 12 16 20 24 28
Quarters from Peak
1969-70
1981-82
1990-93
Forecast


California NonFarm Employment
May '94 and Budget Forecast
Thousands
12800
12600
12400
12200
12000
11800
90:1
91:1
92:1
93:I
94:I
95:I
May Revision
Budget

Revenue

GENERAL FUND REVENUE FORECAST
Reconciliation with the Governor's Budget Forecast
(Dollars in Millions)

Source	Governor's Budget	May Revision	Change Between Forecasts	
FY 92-93				
Personal Income Tax	$17,232	$17,344	$112	0.7%
Sales & Use Tax	15,042	15,042	0	0.0%
Bank & Corporation Tax	4,724	4,603	-121	-2.6%
Insurance Tax	1,188	1,188	0	0.0%
Other Revenues & Transfers	2,760	2,680	-80	-2.9%
Total	**$40,946**	**$40,857**	**-$89**	**-0.2%**
FY 93-94				
Personal Income Tax	$17,535	$17,285	$-250	-1.4%
Sales & Use Tax	13,748	13,796	48	0.3%
Bank & Corporation Tax	4,765	4,615	-150	-3.1%
Insurance Tax	1,219	1,197	-22	-1.8%
Other Revenues & Transfers	2,476	2,689	213	8.6%
Total	**$39,743**	**$39,582**	**-$161**	**-0.4%**
Change from FY 92-93	$-1,203	$-1,275		
% Change from FY 92-93	-2.9%	-3.1%		
FY 94-95				
Personal Income Tax	$18,490	$18,220	$-270	-1.5%
Sales & Use Tax	12,762	13,156	394	3.1%
Bank & Corporation Tax	5,115	4,960	-155	-3.0%
Insurance Tax	1,205	1,283	78	6.5%
Other Revenues & Transfers	3,762	3,896	134	3.6%
Total	**$41,334**	**$41,515**	**$181**	**0.4%**
Change from FY 93-94	$1,591	$1,933		
% Change from FY 93-94	+4.0%	+4.9%		

REVENUE ESTIMATES

Personal Income Tax

The May Revision forecast indicates that both the current and budget year revenues are expected to be somewhat lower than anticipated when the January Budget was released. This adjustment reflects lower than anticipated final payments for the 1993 tax year, due in large part to casualty loss deductions resulting from the Northridge Earthquake. The growth in Personal Income Taxes for the budget year is consistent with anticipated employment growth and is reinforced by current trends in withholding.

The estimate reflects the Governor's proposal to provide a credit for middle income taxpayers to offset the impact of the federal gas tax increase and, in addition, the Governor's proposal to provide a new jobs tax credit.

Sales & Use Tax

This revenue has been tracking the January Budget forecast very well. Expectations of an improving economy result in the budget year revenue forecast being increased. The forecast includes a sales tax exemption for purchases of manufacturing equipment by start-up firms during the first three years of the business, and a sales tax exemption for property used for space flight at Vandenberg Air Force Base effective January 1, 1994. The Board of Equalization has completed most of the audits on Aerospace court case claims, and that information has been incorporated into the May Revision forecast. Also, as in the January Budget, the May Revision forecast continues the proposal to reduce the General Fund sales tax rate from 5.0 percent to 4.5 percent, and shift that 0.5 percent portion, along with the 0.5 percent Local Revenue Fund, to a newly created Client Services Fund dedicated to local government.

Bank & Corporation Tax

Collections from this revenue source continue to be disappointing and this is reflected in both the current and budget year estimates. The causes of the recent shortfall are not clear at this time and could be attributable to economic factors or recent legislation. The May Revision forecast assumes passage of the Governor's new jobs tax credit, that the State will win the *Barclays* case now before the Supreme Court, and includes the revenue benefits resulting from the new proposed Franchise Tax Board bank & corporation computer system. The May Revision estimate also reflects the impact of the Governor's proposal to provide a new jobs tax credit.

Insurance Tax

Current year revenue is running slightly below the January Budget forecast. The budget year forecast is increased because fewer refunds are expected. The Board of Equalization indicated that the *Aetna* case has been settled and the refund is expected to go out by the end of this fiscal year.

Other Funds Revenue

Significant increases in revenues since the Governor's Budget forecast occurred in abandoned property, investment income, and state lands.

Tidelands Oil Revenue

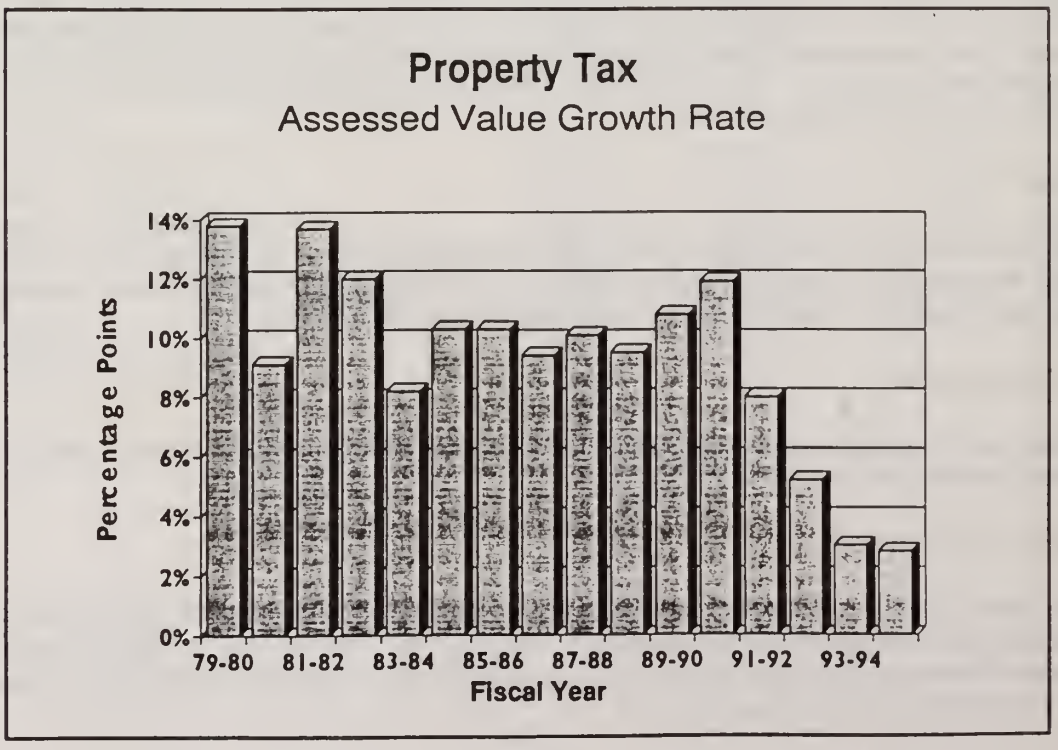
The January Budget estimated $32.4 million in Tidelands Oil Revenue for the 1993-94 fiscal year. Current year revenues are now estimated to be $45.2 million. The revision is due to increased revenues from state leases and receipt of $17.4 million from the Department of Justice resulting from an anti-trust price-fixing settlement.

The January Budget estimated $31.7 million in Tidelands Oil Revenue 1994-95. Budget year revenues are now estimated $49.1 million due to an increase in Long Beach net profits.

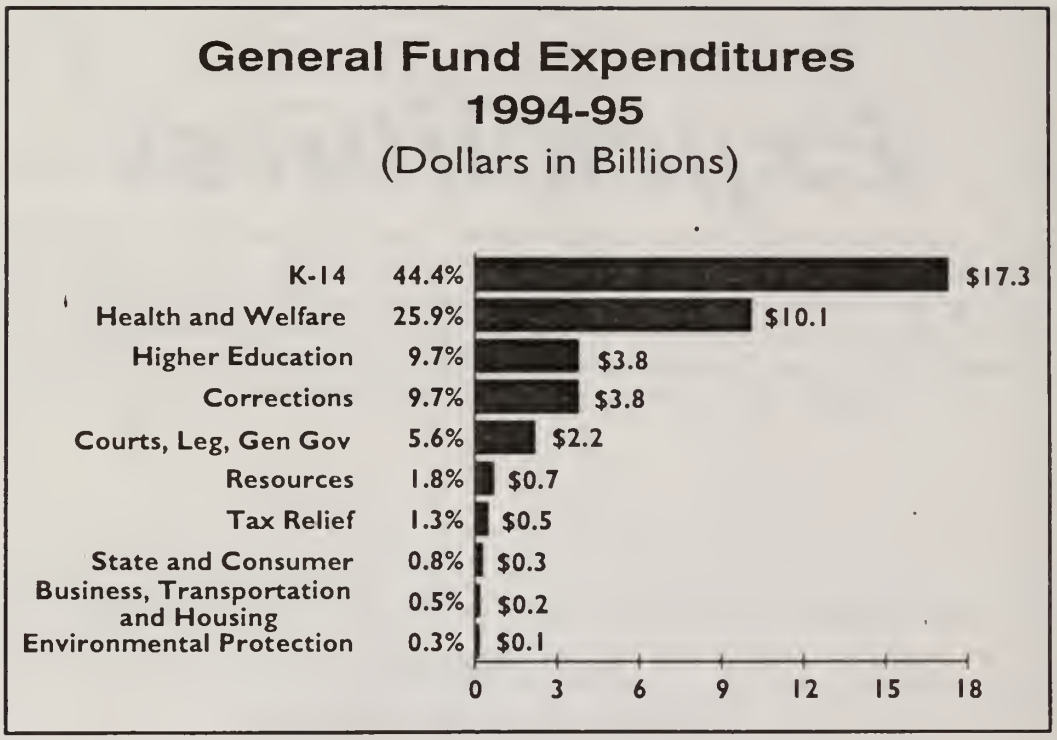
Property Tax Revenue

The January Budget assumed that property assessed values would increase by 3.8 percent in the current year and 4.5 percent in the budget year. Since that time, there have been numerous reports that county assessors have been reassessing property values downward, based on the continuing slump in real estate prices. The State Board of Equalization has also released data regarding changes in the value for the 1993-94 property tax roll. Consistent with the data released by the Board of Equalization, the May Revision estimates growth in the current year of 2.8 percent. Based on discussions with selected county assessors, the May Revision estimates the average growth in assessed value to be 2.6 percent in the budget year. The May Revision reduces the estimate of the total amount to be transferred from the Educational Revenue Augmentation Fund (ERAF) to schools, to reflect the changes in growth rates and a revised estimate of the amounts which are expected to be transferred from special districts to ERAF.

The declining growth in assessed value is adversely affecting revenue to all types of local entities, including cities, counties, special districts and school districts. These changes in the expected growth of assessed value mean that there will be approximately $180 million less property tax available in the current year, and approximately $520 million less property tax available in the budget year for local programs. The effect of these changes on the General Fund is reflected in the revised projections of increased State costs for K-12 education in both the current year and the budget year.



Expenditures


General Fund Expenditures
1994-95
(Dollars in Billions)
K-14
44.4%
$17.3
Health and Welfare
25.9%
$10.1
Higher Education
9.7%
$3.8
Corrections
9.7%
$3.8
Courts, Leg, Gen Gov
5.6%
$2.2
Resources
1.8%
$0.7
Tax Relief
1.3%
$0.5
State and Consumer
0.8%
$0.3
Business, Transportation and Housing
0.5%
$0.2
Environmental Protection
0.3%
$0.1
0
3
6
9
12
15
18

GENERAL FUND EXPENDITURES BY AGENCY
(Dollars in Millions)

AGENCY	1993-94	1994-95
Legislative, Judicial, Executive	$1,301	$1,697
State and Consumer Services	312	342
Business, Transportation & Housing	173	243
Trade and Commerce	39	39
Resources	648	722
Environmental	74	81
Health and Welfare	13,550	10,108
Youth and Adult Correctional	3,397	3,752
K-14 Education	15,298	17,276
Higher Education	3,622	3,773
General Government	921	852
Statewide	-144	80
TOTAL – ALL GENERAL FUND	**$39,191**	**$38,965**
January Totals	$39,347	$38,788
Change from January	-$156	$177
% Change from January	-.40%	+.45%

GENERAL FUND

EXPENDITURE DETAIL
1993-94 and 1994-95
(Dollars in Millions)

HEALTH AND WELFARE

Department of Alcohol and Drug Programs

While no expenditure change is being proposed at this time, General Fund expenditures for drug and alcohol local assistance costs will no longer be included in the Administration's proposed Restructuring plan. This action is necessitated by a Federal Court Order in *Sobky v. Smoley*, which requires the Department of Alcohol and Drug Programs (DADP) to provide Medi-Cal funded methadone maintenance services in seven counties which have certified methadone providers, but which do not currently participate in the Department's Drug/Medi-Cal program. Under existing state law, counties have the option to participate in this program. However, federal Medicaid law requires that all covered services be provided on a statewide basis. Therefore, in order to ensure that the DADP has sufficient funds to comply with the federal court order and any future action of the court in *Sobky v. Smoley*, it will be necessary to remove the DADP local assistance monies from Restructuring and make them available for this program.

1993-94	--
1994-95	--

Department of Health Services–Medi-Cal

The May 1994 Medi-Cal Estimate projects total expenditures of $17,232,885,000 in the current fiscal year. The General Fund amount included in this total is: $5,705,447,000 for the traditional Medi-Cal local assistance purposes in Item 4260-101-001; and $6,850,000 for capital debt payments to hospitals in Item 4260-102-001.

1993-94	-$71.9
1994-95	$15.7

Current Year

The 1993-94 Medi-Cal General Fund deficiency for Item 4260-101-001 was reflected as $236,927,000 in the Governor's Budget and was subsequently increased by $53,860,000 for costs of a federal court order concerning adult dental procedures under the continuing *Clark* case pursuant to our deficiency notification dated February 22, 1994. Based on the expenditure projections contained in the May Medi-Cal Estimate, the Current Year General Fund deficiency for Item 4260-101-001 will decline to $173,830,000.

The decrease in the General Fund deficiency is due, in significant part, to an overall reduction in caseload; the average monthly caseload for 1993-94 is estimated to be 5,291,100 -- down by 83,500, or 1.54 percent, since last November's Medi-Cal Estimate. Other significant cost factors, both positive and negative, affecting the General Fund deficiency amount include: $24.9 million in additional dental case costs; delay in the elimination of prenatal services for undocumented immigrants, $15.3 million; delay in Medicare inpatient crossover savings, $10.1 million; a downward revision of estimated savings for implementing county bounty third-party insurance recoveries, $12.8 million; reduced State Controller's Office audit findings for Medi-Cal, $13.7 million (though this is largely offset by auditors' findings that were determined to benefit other State programs); and savings of $28.0 million due to increased drug rebates.

The Current Year deficiency amount for capital debt payments made under Item 4260-102-001 has changed from $8,732,000 to $8,658,000 for a savings of $74,000. For the capital debt Item only, the Department of Health Services will be using cash accounting in order to better reflect the timing of these outlays which are linked to various hospital construction completion schedules that are outside the State's control.

Budget Year

The Medi-Cal Estimate projects total expenditures of $16,954,985,000 in 1994-95, including $4,488,971,000 for Item 4260-101-001 and $9,990,000 for capital debt in Item 4260-102-001. The estimate also continues to assume $1,352,903,000 in county matching reimbursements as part of the Administration's Restructuring proposal.

The Budget Year Medi-Cal General Fund estimate for Item 4260-101-001 has changed from $4,456,553,000 to $4,488,971,000, an increase of $32,418,000. The capital debt payments Item 4260-102-001 has decreased by $17,690,000 because of the accounting change discussed above.

Much of the relative Budget Year funding stability is caused by lowered caseload estimates which offset such traditional adjustments as the long term care rate increase. The average monthly Medi-Cal caseload for 1994-95 is projected to be 5,589,900 -- 141,700, or 2.5 percent, lower than estimated in the Governor's Budget. Other significant items, both positive and negative, affecting the General Fund change include: a projected long term care rate increase of $43.9 million; $18.7 million additional cost due to new breakthrough drugs; reduced savings of $15.8 million in the Federal Medical Assistance Percentage (FMAP) calculation due primarily to a determination that County Administration costs would not be subject to the higher match; $36.7 million additional cost due to delayed elimination of prenatal services for undocumented immigrants; increased crossover savings of $22.4 million; savings of $5.4 million from implementing dental managed care in Sacramento County; and an increase of $23.3 million due to a four-month delay in the start of the proposed at-risk pharmacy

contracting program. Selected optional benefits remain proposed for elimination at a savings of $172.9 million versus $168.1 million in January; this includes the dual effects of the *Clark* rulings plus implementation as of October 1 instead of July 1.

The Administration's proposals to secure federal funding for immigration-related Medi-Cal expenses have changed as follows: federal funding for 36-month refugee costs has risen from $45.1 million to $45.9 million, and federal funding for emergency and obstetric services for undocumented immigrants has changed from $299.8 million to $296.2 million. In the case of federal funding for undocumented immigrants, a decline in benefit expenses due to reduced growth in projected caseload is substantially offset by including a claim for federal assistance related to eligibility worker costs for this population.

The May Revision also includes an increase of $961,000 ($481,000, General Fund, and $480,000, Federal Trust Fund) for the support of 13 new positions to implement a Port of Entry Detection Program. Investigators are proposed to be stationed at border crossing sites where they will be able to identify residents of foreign countries entering California who currently are receiving or previously have received Medi-Cal as well as other public assistance. This program is expected to generate Medi-Cal savings of $2.4 million, total funds, in 1994-95 as well as savings of $9.1 million, total funds, for AFDC and Food Stamps in the Department of Social Services.

The May Revision further provides $2.4 million for county administration to implement voter registration requirements pursuant to the National Voter Registration Act.

Department of Health Services--Public Health

Current Year

In the current year, estimates for Public Health programs reflect a net decrease of $3.1 million General Fund as follows:

1993-94	-$3.1
1994-95	$2.6

California Children's Services (CCS) Program

For the current year, lower county administrative costs will offset the impact of a slightly higher estimate of 176,350 cases, for a net decrease of $821,000.

Genetically Handicapped Persons (GHPP) Program

In the current year, total caseload has decreased by 10.6 percent to 1,928. This reduction reflects the imposition of new enrollment fees as of July 1, 1993, which has encouraged more families to rely instead on

private insurance coverage. However, increased utilization and intensity of services for the remaining cases will increase costs by $1,500,000.

Child Health and Disability Prevention (CHDP)

The revised estimate for total screens is 968,230, or 1.9 percent lower than the fall estimate. The General Fund portion of this caseload has decreased by 29,380 screens, with lower average costs per screen, for a net reduction of $3,824,000. The caseload which is funded by revenues from the Cigarette and Tobacco Products Surtax Fund (CTPSF) will increase by 11,090 screens, but also shows a lower average cost per screen, resulting in a reduction of $261,000 from the Health Education Account of the CTPSF.

Budget Year

In the budget year, estimates for Public Health programs reflect a net increase of $2.6 million General Fund as follows:

California Children's Services (CCS) Program

The CCS caseload is estimated to reach 187,190 cases, a 1.7 percent increase over the fall estimate. Although lower administrative costs will continue, the addition of a new therapeutic drug, DNASE, for chronic lung disease will result in net increased CCS costs of $1,626,000.

Genetically Handicapped Persons (GHPP) Program

Total caseload is estimated to drop slightly as the enrollment fee impact takes full effect. Higher utilization and intensity of services and the addition of the new therapeutic drug, DNASE, will result in increased costs of $2,522,000.

Child Health and Disability Prevention (CHDP)

The revised budget year estimate includes a total of 1,064,630 screens, a 1.0 percent decrease from the fall estimate. The General Fund caseload estimate has been reduced by 22,130. Caseload funded from the Unallocated Account of the Cigarette and Tobacco Products Surtax Fund (CTPSF) is higher by 10,900 screens. Both programs will increase by $300,000 to fund the new Varivax chicken pox vaccine. Total General Fund costs reflect a net reduction of $1,580,000 while a net increase of $275,000 is required from the Unallocated Account of the CTPSF.

Department of Developmental Services

In the **budget year**, regional center costs are higher by $15.0 million due to a projected increase in the operations, transportation and other purchase of services areas. While the costs for this program are projected to increase, the General Fund need is decreasing by $3.5 million due to increases in the other funding sources for the regional centers. The federal Part H funds have increased by $6.1 million, the Medicaid Waiver funds have increased by $11.5 million and the Program Development Fund is increasing by $.9 million.

1993-94	--
1994-95	-$3.4

Chapter 1011, Statutes of 1992 requires the Department of Developmental Services to enter into performance-based contracts with the regional centers and that incentives be provided to the regional centers to meet the objectives of the contracts. The Governor's Budget proposed to allow regional centers which either meet or exceed their performance contract objectives to retain up to one percent of their savings. This proposal is being amended to allow the regional centers to retain one-half of the savings generated, without an established cap, thus creating an incentive for the regional centers to develop service efficiencies.

In the developmental centers, the Department projects a decrease of $44,000 in its own budget and $343,000 in Medi-Cal General Fund due to a systemwide population decline of 60 clients. Proposition 98 impacts are also reflected for the population decline (-$66,000).

Additionally, the Department projects an increase of $222,000 in its own budget and $1.7 million in the Medi-Cal General Fund budget to fund 130 staff for the developmental centers in Sonoma and Stockton. The changes at Sonoma are required to remedy licensing citations and maintain federal Medicaid certification, while those at Stockton are necessary to fund a second adolescent unit for developmentally disabled clients who are court-placed due to varying offenses, including rape, murder, sexual molestation, child molestation, and armed robbery.

Department of Mental Health

In the **current year**, state hospital expenditures will increase by $700,000 in order to fund a court settlement in the case of *Conners v. O'Conner*.

1993-94	$0.7
1994-95	$5.7

In the **budget year**, a total of $5.4 million General Fund is proposed to be appropriated to offset costs previously charged to counties for education services ($3.4 million in Proposition 98 funds) and hospital overhead ($2 million). Additionally, $300,000 in General Fund is proposed to be reappropriated to reimburse counties for the cost of state hospital patients temporarily placed in their custody to make court appearances. The reappropriation is needed because the 1993 Budget Act limits such reimbursements to $258,000, while approximately $550,000 in claims have been submitted.

Additionally, expenditures for state hospitals are expected to decrease by $2,678,000 in county realignment funds due to a reduction of 107 Lanterman-Petris-Short (LPS) beds the counties are expected to purchase. State hospital expenditures will be further reduced by $950,000 to reflect a reduction 27.5 non-level-of-care (NLOC) positions associated with the reduction of LPS beds.

Department of Rehabilitation

In the **current year**, expenditures are estimated to increase by $1.2 million due to a reduction in the number of clients proposed to transfer from the Habilitation Services Program (100 percent General Fund) to the Vocational Rehabilitation Program (21.3 percent General Fund/ 78.7 percent federal fund).

1993-94	$1.2
1994-95	$0.8

In the **budget year**, expenditures are estimated to increase by a net of $.8 million. First, projected caseload for base Work Activity and Supported Employment programs is higher by 216 clients creating a General Fund increase of $.6 million. Second, caseload in the Vocational Rehabilitation Work Activity and Supported Employment (VR WAP/SEP) programs is projected to decrease by 143 clients resulting in a reduction of $.2 million. Third, a transfer of $1.9 million from the Department of Developmental Services (DDS) to the Department of Rehabilitation (DOR) is proposed to provide the General Fund match to federal funds for the DDS clients transferred from Day Treatment Activity Centers to DOR's VR WAP/SEP programs. Fourth, an internal shift of funds is proposed to allow the DOR to maximize federal matching funds and provide a General Fund savings of $1.8 million. Finally, $.3 million is proposed to implement voter registration at Independent Living Centers and vocational rehabilitation sites pursuant to the National Voter Registration Act.

Department of Social Services

Current Year

In the current year, expenditures for the Department of Social Services are estimated to increase by $6.5 million General Fund as follows:

1993-94	$6.5
1994-95	$59.1

Aid to Families with Dependent Children (AFDC)

In the AFDC program, 1993-94 expenditures are expected to increase by $5.9 million, increasing the deficiency from $35.1 million to $41.0 million. In the Governor's Budget the 1993-94 AFDC caseload was projected to increase by 6.3 percent; now the 1993-94 AFDC caseload is expected to increase by 6.7 percent. Caseload growth of $19.5 million is primarily attributable to a continuing increase in the AFDC-Unemployed (U) caseload which is expected to increase from the Governor's Budget figure of 11.5 percent to 15.6 percent. Decreases in the homeless assistance caseload (-$6.9 million), and

increased savings associated with the expansion of the Income and Eligibility Verification System (IEVS) program (-$6.1 million) partially offset the caseload growth.

In County Administration of welfare programs, General Fund expenditures are expected to decrease by $11.5 million eliminating the deficiency in the Governor's Budget. This decrease is a result of costs in AFDC declining to reflect caseload changes and delays in implementation of the Cal-Learn program (-$2.6 million). Administrative costs associated with child support are expected to decrease (-$4.1 million) primarily due to delays in the state investment program, as well as from not implementing a state investment program in Los Angeles County as was previously planned. Additional savings are expected in Food Stamps administration resulting from caseload changes (-$3.8 million), and reduced spending in staff development in AFDC, Foster Care and Food Stamps (-$0.8 million).

Child support programs include a reduction in savings of $2.8 million, increasing the deficiency from $24.0 million to $26.8 million. Collections will be reduced by $7.2 million, which will be partially offset by a reduction in incentive payments to counties of $4.3 million. Child Support collections and incentive payments are impacted by the persistent weakness in the economy resulting in reductions in child support payment orders and increases in the numbers of persons who fail to make support payments. In addition, collections are further reduced by delays in implementation of the state investment program in several counties, and from not implementing the program in Los Angeles County in 1993-94.

Children's Programs

Changes in the Foster Care program ($8.3 million) are the result of higher than anticipated caseload growth and reduced savings from the Emergency Assistance (EA) program; increasing the current year deficiency amount from $26.1 million to $34.4 million. Caseload was projected to grow above 1992-93 levels by 3.7 percent in the Governor's Budget, but is now projected to grow by 5.1 percent ($1.2 million). Estimated General Fund savings from the EA program also have been revised downward (-$6.5 million) due to delays in implementing the program in some counties. Additionally, the changes reflect a reestimate of Family Preservation expenditures ($.7 million).

In the Child Welfare Services (CWS) program, higher General Fund expenditures ($4.0 million) are the result of reduced savings from the Emergency Assistance program due to delays in implementing the program in some counties.

Adult Programs

In the current year, expenditures for SSI/SSP are $17.4 million below the level reflected in the Governor's Budget, eliminating the deficiency which was projected at that time. In the Governor's Budget, caseload for SSI/SSP was projected to increase by 5.5 percent in 1993-94 above the prior year's level. It is now projected to grow at 3.1 percent (-$14.7 million). Additional current year savings are generated by a federal law change, which extends the length of time that a sponsor's income may be counted in SSI/SSP eligibility determinations for immigrant applicants (-$2.7 million).

Expenditures in the In-Home Supportive Services (IHSS) program are $4.5 million below the Governor's Budget. In the Governor's Budget, caseload for IHSS was projected to increase by 2.8 percent in 1993-94 above the prior year's level, it is now projected to grow at 2.1 percent (-$3.8 million). Additional savings are generated by a reestimate of the current year costs of lawsuits (-$.6 million).

Other

The May Revision also contains $28.5 million for the costs of the State Supplemental Assistance program to reimburse individuals for losses suffered in the January 17 Northridge Earthquake.

Budget Year

In the budget year, expenditures for the Department of Social Services are estimated to increase $59.1 million General Fund as follows:

Aid to Families with Dependent Children (AFDC)

In the AFDC program, expenditures are expected to increase by $39.6 million. In the Governor's Budget, the 1994-95 AFDC caseload was projected to increase by 4.5 percent; now it is expected to increase by 5.1 percent ($48.5 million). This increase is primarily attributable to a continuing increase in the AFDC-Unemployed (U) caseload which is expected to increase from the Governor's Budget figure of 4.7 percent to 7.8 percent. Usually, the AFDC-U caseload follows the changes in employment in the state. However, actual data indicate that, although employment in the state is improving, the AFDC-U caseload is continuing to grow.

The May Revision also includes increases in welfare reform due to caseload adjustments and delay in the implementation from July 1, 1994 to September 1, 1994 ($49.1 million). Increases are also included for delays in the expansion of the Income and Eligibility Verification System (IEVS) ($3.2 million), and reduced grant savings due to program reductions resulting from the loss of enhanced federal funding for GAIN ($2.1 million). These costs are partially offset by savings

resulting from restructuring (-$35.6 million), Federal Medical Assistance Percentage (FMAP) adjustments (-$5.4 million) and the reestimate of caseload for homeless assistance (-$6.8 million).

Fraud activities are expected to result in additional grant savings of $15.4 million. These additional savings result from reestimating the impact of components put forth in the Governor's Budget (-$2.1 million), and adding two fraud proposals not previously included. The new components are: verifying residency where persons who are not living in the United States are collecting aid (-$4.4 million), and implementing a county incentive program to encourage the collection of overpayments (-$10.6 million).

In the county administration of welfare programs, General Fund expenditures are expected to increase by $13.3 million. This increase is the result of the reestimate of caseload for welfare reform and the delay in the implementation of the program from July 1, 1994 to September 1, 1994 ($7.3 million). The Governor's Budget assumed that state legislation would be enacted and federal waivers obtained by May 1, 1994 allowing for a July 1, 1994 program implementation. The May Revision assumes that legislation will be enacted by July 1, 1994 and federal waivers obtained by September 1, 1994, with county implementation beginning on September 1. The lower grant levels will be reflected in payments issued starting on November 1, 1994. The difference between the current and new grant levels for September and October will be collected as an overpayment beginning in November. It is estimated that 80 percent of the overpayments will be collected. However, the process of collecting the overpayments will result in increased administrative costs for counties. Additional costs will also result from an estimated increase in AFDC, Food Stamps, and Foster Care caseload ($1.3 million), and reduced savings in restructuring due a reestimate of fraud savings ($4.7 million).

These administrative costs are partially offset by a decrease in the costs of the state investment in child support programs, primarily due to delayed implementation of local programs (-$3.6 million), and a decrease in the administrative costs for the homeless assistance program (-$1.2 million) due to a reestimate of caseload.

The May Revision also proposes to reappropriate $5 million from 1992-93 savings in County Administration to support demonstration projects for the Statewide Automated Welfare System (SAWS). These projects will be designed to test the application of the SAWS system (NAPAS) on various kinds of hardware platforms. We believe that the demonstration projects will serve to increase the competitive nature of the project, potentially lead to greater county flexibility in terms of operating systems and should allow the statewide system to be brought on line sooner.

The May Revision includes $5.4 million for county administration to implement voter registration in county welfare offices pursuant to the National Voter Registration Act.

In the Child Support Enforcement program, General Fund savings will increase by approximately $100,000. This is due to reduced collections ($7.0 million) associated with the persistent weakness in the economy, resulting in reductions in child support payment orders and increases in the numbers of persons who fail to make support payments. In addition, delays in implementing the state investment in child support programs and removing Los Angeles and Orange counties from the 1994-95 program reduces expected collections. There will be offsetting reductions in incentives paid to counties (-$7.1 million) for child support collection activities for similar reasons.

The costs of the Cal-Learn program will decrease by $1.9 million below the level included in the Governor's Budget. This program is based on the belief that completing high school will reduce future dependency needs and promote self-sufficiency. The Governor's Budget includes funds to support an education incentive program for school age pregnant or parenting teens receiving AFDC. Cash incentives and sanctions are employed to encourage pregnant and parenting teens to complete high school. A delay in receiving the necessary federal waivers for this program is responsible for the reduction in program costs. In addition, the May Revision reflects an adjustment in the amounts to be paid for case management from $1,614 per case per year to $1,650 per case per year.

Children's Programs

The 1994-95 restructuring proposal would shift program and funding responsibility for the Foster Care program to the counties. Accordingly, the 1994-95 budget reflects General Fund costs only for payment of child support incentives. These are projected to decrease by $8,000.

The restructured expenditures in the Foster Care program, however, are projected to increase by $3.8 million. This is the net result of caseload growth ($3.1 million) and expansion of Family Preservation ($5.2 million) offset against increased savings from the Emergency Assistance (EA) program (-$2.7 million), increased federal fund participation (-$1.1 million) and a revised estimate of Foster Care rates costs (-$.7 million) based on program plans submitted to the department.

In the Adoptions Assistance Program (AAP), savings of $6.9 million are the result of lower caseload growth (-$5.9 million), an increase in the federally-eligible caseload (-$2.2 million) and increased General

Fund costs ($1.1 million) resulting from a revised estimate of savings from the cap on AAP payments limiting the maximum payment to the basic foster care family home rate.

Whereas the 1994-95 AAP caseload was projected to grow above 1993-94 levels by 13.4 percent in the Governor's Budget, it is now projected to grow by 11.1 percent.

The Child Welfare Services (CWS) program expenditures are estimated to decrease compared to the estimate in the Governor's Budget (-$.3 million). Changes are the result of increased caseload growth ($4.1 million) and increased CWS costs ($1.5 million) resulting from implementation of the teen pregnancy disincentive proposal. The increased costs are offset by a reduction in General Fund costs (-$4.4 million) resulting from the receipt of additional federal Title XIX funds and a revised estimate of General Fund costs (-$1.5 million) for counties in the pilot phase of Family Preservation program implementation.

Whereas 1994-95 Child Welfare Services caseload was projected to grow above 1993-94 levels by 3.9 percent in the Governor's Budget, it is now projected to grow by 4.0 percent.

Juvenile Crime Prevention Initiative

The May Revision estimate contains $10 million in the Child Abuse Prevention program to fund a Juvenile Crime Prevention Initiative. The proposal would create 12 pilot programs called Family Resource Centers (FRC) to provide services intended to prevent juvenile crime. The components of the FRC pilot programs include:

Families and Schools Together -- a highly structured, eight-week drug and alcohol abuse prevention program for at-risk children and families. The program would include two years of follow-up activities.

Mothers and Sons Program -- a program targeting single mothers and their sons aged 10-14 who have had school suspensions or been involved in gangs, bullying, or minor vandalism. The focus of the program would be on family responsibility and community involvement and would include family preservation services, classroom/group training, and family support networks.

First Offenders and Family Preservation -- a program to provide intensive family counseling and social work services for a three to four month period with follow-up and supportive services for an additional six months.

After School Program -- a program to provide support and supervision to youth and respite time to parents. The program would operate in partnership with existing community programs emphasizing recreational and educational components.

Adult Programs

In the budget year, SSI/SSP expenditures are $35.8 million below the level reflected in the Governor's Budget. This reduction is the result of 1) a federal law change which extends the length of time that a sponsor's income may be counted in SSI/SSP eligibility determinations for immigrant applicants ($-22.7 million), 2) anticipated savings from the SSI/SSP Post Eligibility Fraud unit ($-2.5 million) and 3) caseload growth which was estimated at 6.6 percent in the Governor's Budget is now estimated at 5.7 percent (-$22.5 million). However, these reductions are offset by a decrease in estimated savings from federal funding for refugees ($3.7 million), and a decrease in anticipated savings from restricting SSI/SSP eligibility for Drug Abuse and Alcohol allowances ($8.3 million).

The Governor's Budget for 1994-95 proposes to restructure the programmatic and fiscal relationship between the state and the counties. Under this proposal, counties will assume responsibility for IHSS. The amount of the expenditures to be restructured is $43.6 million above the Governor's Budget projection. This reflects an increase in expenditures of $46.2 million as a result of the budget no longer assuming the availability of federal funds for relative providers in the Personal Care component of IHSS. This increase is offset by a reduction in estimated caseload from an increase of 6.7 percent in 1994-95 above the prior year's level to 6.3 percent (-$2.6 million).

Other

The May Revision also contains $37.8 million for the costs of the State Supplemental Assistance Program to reimburse individuals for losses suffered in the January 17 Northridge Earthquake.

Proposition 98 Guarantee

1993-94	$98.0
1994-95	$139.9

When the Governor's Budget was presented in January, Proposition 98 appropriations in the current year exceeded the minimum guarantee by $326 million. Appropriations counting toward the guarantee included $190 million that was considered an emergency loan repayment from the prior year. Including a non-Proposition 98 loan to K-12 of $609 million, 1993-94 State General Fund and local revenues provided $4,217 per K-12 pupil. Since appropriations for school districts and county office of education apportionments were not included in the 1993-94 Budget Act, the Governor's Budget also included an $80 million increase in apportionment funding to reflect revised average daily attendance (ADA) and local revenue projections. Due to a decline in anticipated local property tax revenues, a decrease in ADA growth and, primarily, a downward revision in state revenues which impacts the guarantee inflation factor, current year Proposition 98 appropriations now exceed the guarantee by $522 million. The May Revision estimate of the additional continuous appropriations required for school district and county offices of education apportionments increased to $205 million.

The Governor's Budget proposed a Proposition 98 funding level for 1994-95 that exceeded the minimum guarantee by $336 million, providing $4,217 per K-12 pupil all within the Proposition 98 guarantee. As a result of the minor decrease in anticipated State revenues, a downward revision in ADA, and a decline in anticipated local property tax revenues, the May Revision State share of the Proposition 98 guarantee for 1994-95 increased by $140 million, and the minimum guarantee is now estimated to be exceeded by $55 million.

PROPOSITION 98
JANUARY VS. MAY REVISION
(Dollars in Thousands)

	January Proposal	May Revision	Change
1993-94			
General Fund	$13,606,011	$13,704,191	$98,009
Local Revenue	10,030,908	9,827,180	-203,728
Total Guarantee	$23,636,919	$23,531,371	-$105,548
1994-95			
General Fund	$15,508,292	$15,648,216	$139,924
Local Revenue	9,391,206	9,095,226	-295,980
Total Guarantee	$24,899,498	$24,743,442	-$156,056

The Proposition 98 funding level does not reflect any potential impact of a judgement in *California Teachers Association, et al. v. Gould.*

K-12 Expenditures

The expenditure changes for K-12 Education primarily reflect satisfying the Proposition 98 guarantee, providing at least $4,217 per-pupil for K-12, and providing general purpose funding in the current and budget years based on the factors pursuant to the 1993-94 education trailer bill SB 366, Chapter 66, Statutes of 1993.

1993-94	$90.7
1994-95	$96.7

Current Year

As noted above under Proposition 98, the current year Proposition 98 appropriations exceed the guarantee by $521 million, rather than the $326 million level in January. The downward revision in ADA growth (from 1.79% to 1.24%) was more than offset by a downward revision in local property tax growth, resulting in a net increase of $45 million in the continuous appropriations for apportionments.

The Governor's Budget also proposed to fund, in 1993-94, $26.5 million for the anticipated current year special education deficiency. The amount of the estimated deficiency has been revised downward to $14.4 million and will be funded in 1994-95.

Budget Year

ADA, originally estimated to increase 2.69 percent, is now expected to increase 2.53 percent. However, the local property tax growth estimate has been revised downward and the net impact for district apportionments is a $5 million increase to the General Fund. Overall, the decrease in the property tax estimate of about $258 million for school districts, county offices of education, and special education has been compensated through increased General Fund expenditures for those programs.

Anticipated savings in general purpose school apportionments of about $100 million due to a significant rate reduction for public school employee retirement contributions (PERS), was partially offset by growth in community school ADA and funding the special education current year deficiency in the budget year. Combined with the impact of the reduced level to provide $4,217 per K-12 pupil due to the reduced ADA estimate, about $46 million of the PERS savings is available to spend for non-general purpose programs. The May Revision proposes to spend such savings by providing an increase of $22 million to Economic Impact Aid, $12.4 million for Instructional Materials, and $11.9 million for Deferred Maintenance. The May Revision also reflects a savings of $16.4 million in the State Teachers Retirement Fund (STRS) mandates.

For Special Education, formula-driven changes result in a net decrease of $1.3 million consisting of an increase of $2.7 million due to property tax re-estimates and a reduction of $4.0 million due to an updated growth rate. The Governor's Budget proposed to use one-time funding sources for the

following purposes: $18.3 million for Civic Center Mandates, $13.4 million for Adults in Correctional Facilities, and $13.3 million for the Mega-Item.

The May Revision proposal includes an additional $2.3 million in one-time funds for a prior year desegregation deficiency and, as addressed in the April 28, 1994 Finance Letter, $2.1 million in one-time monies are proposed for the adults in Correctional Facilities program.

The Governor's Budget included an $8 million augmentation for the California Learning Assessment System (CLAS) to expand performance-based assessment and individual scoring. However, many concerns have since been raised about the manner in which CLAS has been developed and administered by the Department of Education, and the Administration has requested that the Bureau of State Audits conduct a financial and performance audit of CLAS. Because of this, the May Revision proposes to eliminate funding from the 1994-95 Budget Bill associated with implementation of CLAS; this funding consists of $24.2 million from local assistance and $2.2 million from State operations. Continuation of funding for this program in 1994-95 should be contained in legislation which sufficiently reforms this program; funds are set aside within budget totals for such a local assistance appropriation.

Higher Education

California Community Colleges

For 1994-95, General Fund expenditures for the California Community Colleges (CCCs) are proposed to be increased by $39.0 million. This increase is the net effect of (1) a $40.6 million increase in apportionments, and (2) a $1.5 million decrease to reflect the revised estimate of the amount needed to reimburse districts for revenue bond lease-purchase payments they will be required to make to the Public Works Board. The $40.6 million increase for CCC apportionments is due to a combination of changes, including the following.

1993-94	--
1994-95	$39.0

A net increase of $38.4 million is included to reflect General Fund apportionments necessary to offset the estimated net changes in property tax revenue (-$37.8 million) and federal oil and mineral royalties (-$0.6 million).

An increase of $2.8 million is necessary to provide for administrative costs of districts related to the level of fee waivers expected in the budget year pursuant to Chapter 1124, Statutes of 1993.

A reduction of $675,000 is proposed because the estimate of the rate of change in the state's adult population has been revised from 1.32% to 1.25%.

University of California

Current year expenditures for lease revenue bond repayments are increased by $0.5 million, due to a cost shift from the budget year. Budget year expenditures for lease revenue bond repayments are decreased by $2.9 million, partly due to the shift to the current year, but mostly due to the use of surplus monies from bond refunding. Budget year expenditures for annuitant health and dental benefits are being decreased by $3.6 million to correspond to the decrease in rates for civil service annuitants.

1993-94	$0.5
1994-95	-$6.5

California State University

Current year expenditures for lease revenue bond repayments are decreased by $0.4 million. Budget year expenditures for lease revenue bond repayments are decreased by $1.4 million, mostly due to the revised schedule of payments. Budget year expenditures for annuitant dental benefits are being decreased by $1.1 million to correspond to the decrease in rates for civil service annuitants.

1993-94	-$0.4
1994-95	-$2.5

Student Aid Commission

Current year expenditures for the Cal Grant program are increased by $7.3 million, due to higher student retention. The higher retention rates will increase base program costs for the budget year by $12.4 million; however, no change is proposed in budget year expenditures, since the January budget provides sufficient resources to accommodate this increase.

1993-94	$7.3
1994-95	--

YOUTH AND ADULT CORRECTIONAL AGENCY

Department of Corrections

For the current year, the Governor's Budget anticipated a June 30, 1994 institutions population of 126,323. The May Revision anticipates a year end population of 123,996, or 2,327 less inmates than budgeted, resulting in State operations savings of $14,111,000 in the institutions program. However, these savings are partially offset by a $5,569,000 local assistance augmentation which is required to cover anticipated county billings for the cost of detaining state parolees. Also, the May Revision anticipates a

1993-94	-$11.7
1994-95	$9.4

parole population of 88,971 by June 30, 1994, or 2,382 more parolees than the 86,589 parolees previously anticipated in the Governor's Budget, at a cost of $2,347,000. This cost, however, is offset by other savings of $5,549,000. The net effect of these changes will be savings of $11,744,000.

Impact of "Three Strikes and You're Out"

The Department of Corrections (CDC) budget for 1994-95 is impacted significantly by the recent passage of Chapter 12, Statutes of 1994 (AB 971--"Three Strikes and You're Out"). The estimated cost to the CDC budget, as a result of this law, is approximately $33 million greater than would have been necessary prior to the passage of the "Three Strikes" law. Without the passage of "Three Strikes", the May Revision would have reflected a reduction to CDC's budget. The various adjustments to the Corrections budget are summarized below.

For the budget year, the Governor's Budget supported a June 30, 1995 institutions population of 134,981. The May Revision projects this year end population to increase by 2,756 to 137,737 inmates, attributable primarily to the impact of "Three Strikes and You're Out", at a State operations cost of $5,680,000 in the institutions program. The May Revision also projects a year end paroles population of 96,635, or 3,573 more parolees than the 93,062 anticipated in the Governor's Budget, at a cost of $6,950,000. These increases have been offset by savings related to various other adjustments for paroles, local assistance and lease payment costs totalling $13,256,000 General Fund.

In addition, the May Revision includes an increase of $10,050,000 General Fund and 156.8 personnel years, which is directly attributable to the "Three Strikes and You're Out" legislation. A portion of the augmentation is directly related to an increase in existing workload and the balance is new workload the Department must address. The anticipated increase in the inmate population is expected to have the effect of doubling the size of the Department of Corrections within approximately six years. This unparalleled growth will present a myriad of policy, management, and logistical issues which the Department must begin to address immediately. The net effect of all changes for 1994-95 is an increase of $9,424,000 General Fund.

Department of the Youth Authority

1993-94	-$0.5
1994-95	-$0.6

For the current year, the Governor's Budget anticipated a June 30, 1994 institutions population of 8,897. The May Revision anticipates a year end population of 8,847, or 50 less wards than budgeted, resulting in savings of $350,000 ($197,000 General Fund and $153,000 Proposition 98-General Fund) in the institutions program. Also, the May Revision anticipates a parole population of 6,160, or 303 less parolees than the 6,463 anticipated in the Governor's Budget, resulting in a savings of $181,000 General Fund. The net effect of these changes will be a savings of $531,000.

For the budget year, the Governor's Budget supported a June 30, 1995 institutions population of 9,209. The May Revision projects this year end population to decrease by 124 to 9,085, which includes a base budget adjustment for bed savings associated with the Electronically Enhanced Parole Release Program Expansion (87 beds) which was approved as a Fall policy budget change proposal, for a net savings of $119,000 ($67,000 General Fund and $52,000 Proposition 98-General Fund) in the institutions program. The May Revision also projects a year end paroles population of 6,567, or 263 less parolees than the 6,830 anticipated in the Governor's Budget, resulting in a savings of $457,000 General Fund. The net effect of these changes is a reduction of $576,000.

GENERAL GOVERNMENT/OTHER

Tax Relief

The State provides tax relief to senior citizens, disabled persons, and homeowners. Estimated expenditures for the following programs are being revised to reflect the most current expenditure data available:

1993-94	$8.1
1994-95	$11.9

The 1994-95 Governor's Budget estimated that Homeowners' Property Tax Relief program cost would total $365.6 million in 1993-94. However, despite the housing market slump, current expenditure trends in that program indicate an increase in homeowner claims. It is now expected that the Homeowners' program cost will total approximately $373,727,000 in the current year. Accordingly, we have revised our growth rate projections for this program for 1994-95 from the one percent growth reflected in the 1994-95 Governor's Budget to a two percent growth. As a result of these changes in the expected rate of growth, the estimated cost for this program will increase by $11.9 million from $369.3 million to $381.2 million for 1994-95.

Current year costs for most of the remaining tax relief programs are expected to track with earlier projections for budget year. However, the May Revision reflects a $1.2 million reduction to the Senior Citizen's Renter's Tax Assistance Program (Program 30) to the Renter's Tax Relief (Program 80). The 1993-94 Budget Act appropriated $30 million for the Renter's Tax Relief Program; however, current year costs will exceed this appropriation by approximately $1.2 million.

Franchise Tax Board

The current Bank and Corporations Tax Program is supported by a 20 year old automated system. The Franchise Tax Board proposes to replace the existing system with a new automated system that will not only meet existing and anticipated information and tax processing needs, but will

1994-95	$7.9

enable the Board to increase revenues. The system will be implemented through the use of a new procurement strategy that calls for sharing of risk by the State and vendors. The vendors will be required to provide the necessary consultant services and bear up-front costs of implementing the system and will be paid from the project benefits (i.e. additional revenues and program savings). The project, over its six year implementation period, is estimated to result in a net expenditure increase of $59.8 million and is expected to generate a total of $144.4 million in additional revenues and $3.9 million in program savings, for a net benefit to the State of $84.6 million. Additional revenues of $9.1 million produced as a result ot this project in 1994-95 are reflected in the May Revision of Bank and Corporations Tax revenues.

Victims Support Services–Penalty Assessment Fund

The 1994-95 Governor's Budget proposed a realignment of the distribution formula for the Penalty Assessment Fund in order to manage a revenue decline and ensure that sufficient resources are available for the Board of Control's Victims of Crime (VOC) Program and the Office of Criminal Justice Planning's (OCJP) Victim Witness Assistance, Rape Crisis, and Child Sexual Abuse/Exploitation Programs.

1993-94	$3.2
1994-95	$4.1

In order to offset a further decline in revenues forecast in the May Revision, $3.222 million General Fund is proposed as a transfer to the Restitution Fund in the current year for the VOC program ($2.550 million) and to the Victim/Witness Assistance Fund for the OCJP victims programs ($672,000). In the budget year, $4.067 million General Fund is proposed as a transfer to the Restitution Fund for the VOC program ($3.313 million) and to the Victim/Witness Assistance Fund for the OCJP victims programs ($754,000).

Peace Officers Standards and Training–Penalty Assessment Fund

The 1994-95 Governor's Budget projected $32.1 million in the current year and $32.9 million in the budget year in Penalty Assessment revenues for the Commission on Peace Officer Standards and Training (POST). POST is responsible for establishing and maintaining standards for and providing training to peace officers. A significant portion of the POST's funding is used to reimburse local level law enforcement agencies for training costs including subsistence and travel, tuition for high cost courses, training technologies and training development.

1993-94	$1.9
1994-95	$1.5

In order to offset a decline in revenues forecast in the May Revision, $1.866 million General Fund is proposed as a transfer to the Peace Officer Training Fund in the current year. In the budget year, a $1.453 million General Fund transfer is proposed. The transfers will ensure that the level of reimbursement for local training costs, as projected in the Governor's Budget for both the current and budget years, will be met.

The Governor's Budget includes a Restructuring Proposal which would, in part, transfer certain penalty assessment revenues to local government. As a result of this Restructuring Proposal, it is expected that there will be significant improvement in the level of penalties assessed, collected and forwarded to the state as well as local government. Consequently, a revenue growth in the Penalty Assessment Fund should occur, thereby avoiding the need for future General Fund transfers for this purpose.

Reimbursement of Special Election Costs

The Governor's June 6, 1993, proclamation calling for a special election on November 2, 1993, on five propositions included a commitment for the State to reimburse counties for the costs of that election. Using an average cost of $.95 per registered voter or actual costs incurred, whichever is less, results in a maximum state liability of $13.8 million.

1993-94	--
1994-95	$14.1

In addition, Chapter 39/93 (AB 37) requires the state to reimburse counties for conducting elections called by the Governor to fill vacancies in the Legislature or the Congress. Twenty-two counties have filed claims with the Board of Control and will be reimbursed from a $4.8 million appropriation in SB 1409 on the basis of $1.29 per registered voter for standalone elections and $.61 per registered voter for consolidated elections or actual costs incurred, whichever is less. Using those rates per registered voter, the costs to the five counties which have not yet filed claims is estimated to be $300,000.

Payment of Interest on General Fund Loans

The proposed 1994-95 Governor's Budget anticipated annual General Fund expenditures of $255 million in the 1993-94 and 1994-95 fiscal years for the payment of interest on external borrowing.

1993-94	-$173.0
1994-95	$71.0

In the 1993-94 fiscal year, interest costs on external borrowing are now estimated to be $82 million, for a savings of $173 million.

However, due to an estimated increase in the level of external borrowing for the 1994-95 fiscal year, interest costs are currently estimated to be $326 million, resulting in an increase of $71 million for the 1994-95 fiscal year.

Together, the revised two-year estimate of costs for external borrowing will result in a net General Fund savings of $102 million.

Annuitant Health and Dental Benefits

Anticipated increases in annuitant health and dental benefit cost are below projections in the Governor's Budget, which will result in a total General Fund cost savings of $48.6 million over both the current and budget years.

1993-94	-$20.0
1994-95	-$28.6

Augmentation for Employee Compensation

For the budget year, the estimated salary increase rate for state agencies providing safety, 24-hour care and revenue producing services to the public has been reduced from 3.5 percent to 3.0 percent, which will result in a $8.1 million General Fund cost savings. The rate adjustment is being made to reflect the lowering of the United States Consumer Price Index in accordance with collective bargaining agreements.	1993-94 1994-95	-- -$8.1

State Appropriations Limit

STATE APPROPRIATIONS LIMIT

1994-95 Limit Calculation:

Pursuant to Article XIIIB of the California Constitution, the 1994-95 State Appropriations Limit (SAL) is estimated to be $37.554 billion or 2.61 percent greater than the Limit in 1993-94. This is $948 million higher than the $36.606 billion estimated for 1994-95 in January. This increase is due to changes in the following factors:

	January	May Revision
· Per Capita Personal Income	-2.04%	0.71%
· State Civilian Population	1.94%	1.43%
· K-14 Average Daily Attendance	2.40%	2.73%

The SAL for 1993-94 did not change since it was statutorily determined by Section 12.00 of the 1993 Budget Act.

Proposed 1994-95 appropriations subject to the Limit continue to be several billion dollars under the Limit.